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INFO RUCNCLS/ALL SOUTH AND CENTRAL ASIA COLLECTIVE
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RULSDMK/DEPT OF TRANSPORTATION WASHDC
RHMFIUU/FAA NATIONAL HQ WASHINGTON DC
RUEHRC/DEPT OF AGRICULTURE WASHDC

UNCLAS NEW DELHI 002575

SIPDIS
SENSITIVE

STATE FOR SCA/INS AND EEB
USDOC FOR ITA/MAC/OSA/LDROKER/ASTERN/KRUDD
DEPT OF ENERGY FOR A/S KHARBERT, TCUTLER, CZAMUDA, RLUHAR
DEPT PASS TO USTR CLILIENTFELD/AADLER/CHINCKLEY
DEPT PASS TO TREASURY FOR OFFICE OF SOUTH ASIA MNUGENT
TREASURY PASS TO FRB SAN FRANCISCO/TERESA CURRAN
USDA PASS FAS/OCRA/RADLER/BEAN/CARVER/RIKER
EEB/CIP DAS GROSS, FSAEED, MSELINGER
DEPT PASS TO USTDA HSTEINGASS/JNAGY

E.O. 12958: N/A
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KIPR, KWMN, PHUM, SENV, ASEC, IN

SUBJECT: NEW DELHI WEEKLY ECON OFFICE HIGHLIGHTS FOR THE WEEK OF
SEPTEMBER 22 TO SEPTEMBER 25, 2008

11. (U) Below is a compilation of economic highlights from Embassy
New Delhi for the week of September 22 to September 25, 2008,
including the following:

- RBI EASES ECB NORMS FOR INFRASTRUCTURE
- RBI EASES FOREIGN FUND RAISING RULES
- GOI CLEARS 18 NEW SEZ PROPOSALS
- ITALIAN FIRM EXECUTIVE KILLED BY EMPLOYEE MOB
- INDIA QUEST SETS OUT TO MAKE CIVIL REGIONAL AIRCRAFT
- RAMANATHAN APPOINTED NEW FINANCE SECRETARY

RBI EASES ECB NORMS FOR INFRASTRUCTURE

12. (U) The Reserve Bank of India (RBI) announced this week that the
external commercial borrowing (ECB) ceiling has been raised for
infrastructure projects from \$100 million to \$500 million per
financial year. Given the huge funding requirements in the
infrastructure sector, borrowers will now have access to more funds
for rupee expenditure. For ECBs in excess of \$100 million, the RBI
requires a minimum average maturity period of 7 years. The RBI has
also raised the labor spread giving medium firms more access to
foreign financing. Given the widening of credit spreads, it raised
the interest ceiling by 100bps from Libor + 350 to Libor + 450 bps
to enable companies access to overseas markets. The primary reason
for this move is to assist the ailing infrastructure sector which is
hurting for funds. The immediate catalyst seems to be the likely
need for higher capital inflows to offset downward pressure on the
rupee. Yet, this move may be insufficient given the recent global
liquidity crunch. ECB norms for non-infrastructure companies remain
unchanged. Detailed release of the RBI announcement is available at
<http://rbi.org.in/home.aspx> (under "What's New," click on "External
Commercial Borrowings Policy - Liberalisation").

RBI EASES FOREIGN FUND RAISING RULES

13. (U) On Tuesday, the RBI operationalized the issue of Foreign

Currency Exchangeable Bonds (FCEB) Scheme of 2008 towards attracting foreign currency inflows. The new policy, which was notified by the Ministry of Finance in February, will provide corporate groups more flexibility to raise funds abroad since they can also leverage the value of their holding of a company in group firms. An FCEB is a bond expressed in foreign currency with the principal and interest payable in foreign currency. Foreigners, non-resident Indians (NRIs), and overseas entities are eligible to subscribe to these bonds, which can be converted into equity shares of a group company (known as the offered company). The offered company should be a listed company in a sector which is eligible for FDI and able to issue or avail of FCCBs or ECBs. The investment under the scheme must comply with the FDI and ECB policy requirements.

14. (U) The norms for FCEBs incorporate all the restrictions applicable on ECBs as well as foreign ownership in Indian companies. Bankers have commented that it will be difficult to raise foreign capital given the recent global financial turmoil. However, from RBI's perspective, this measure will attract more foreign exchange inflows into debt, given that foreign investors have recently been heavy sellers in equity markets. Also, with the government stipulating the minimum period of maturity for FCEBs at five years, it will also act as a type of "lock in" for funds. The RBI has also required that funds raised through FCEBs cannot be used for investments in Indian capital markets or real estate. The policy does allow proceeds from FCEBs to be invested by the issuing company in promoter group companies.

GOI CLEARS 18 NEW SEZ PROPOSALS

15. (U) The GOI Board of Approval (BOA) recently reviewed 35 proposals for setting up Special Economic Zones (SEZs), of which 18 were granted formal approval, and 10 received in-principle approval subject to land acquisition. Among the formal SEZ approvals, some prominent investors included Larsen and Toubro, JSW Bengal Steel, and Bharat Forge for a combined investment of nearly \$16 billion (INR 720 billion). The BOA converted the earlier in-principle approval of Bharat Forge's 1,271 hectare multi-product SEZ in Maharashtra to formal approval. JSW Bengal Steel's 1,804-hectare multi-product SEZ project in West Bengal involves a \$3.4 billion investment. In addition to the three multi-product, multi-services, and engineering SEZs in Maharashtra, other formally approved proposals included biotech SEZs in Andhra Pradesh and in Tamil Nadu and nine information technology and related services SEZs in Uttar Pradesh, Tamil Nadu, Haryana, Gujarat, and Maharashtra. Overall, the GOI has approved 513 SEZs, of which 250 have been notified and 87 are operational.

16. (U) Among the 10 projects which received in-principle approval, the multi-product project EMPI Vittal Center entails an investment of \$2.5 billion. The pending Reliance Industries Ltd's (RIL's) proposal for a SEZ in Navi Mumbai (Maharashtra) also received in-principle approval, despite some land acquisition issues which must adhere to GOI policy. In April 2007, the GOI banned compulsory acquisition of land for SEZs following widespread protests against the SEZs; the government also established a ceiling of 5,000 hectares for the maximum amount of land acquired by a SEZ developer. The Maharashtra state government had earlier issued a notification mandating all SEZ land acquisition take place through the state government. The GOI has recommended the Maharashtra state government withdraw this notification which requires that land owners can only sell their land to anyone but the state government. This requirement has created antagonism and resentment among farmers in Maharashtra.

ITALIAN FIRM EXECUTIVE KILLED BY MOB

17. (U) On 22 September 2008, a mob of 200 people who are believed to be former employees of Graziano Transmission, an Italian auto-parts firm, rushed past security guards and began destroying vehicles and other company property in Greater Noida. India division chief executive and managing director Lalit Chaudhary heard the commotion and went to investigate the incident. Reportedly, Chaudhary attempted to reason with the mob during which time he was attacked

and killed. In addition to killing Chaudhary, 20 to 25 other workers were injured by the mob. Human resources head L.K. Gupta stated that, "The company will continue to operate. There is no question to shut down or move out as of now." CEO Marcello Lamberto, who arrived in India after Chaudhary's unfortunate death acknowledged however that, "There are several issues relating to law and order, safety and security, and labor issues." According to media reports, labor unions have termed the event "unfortunate" and dismissed it as a one-off case. Yet, industry officials are concerned about the damage to India's image.

18. (SBU) A Regional Security Officer (RSO) from the U.S. Embassy contacted the local police who confirmed the information above and provided additional background on the attacks. The police noted that they had arrested 136 people, of which 63 have been charged with the murder of Chaudhary. The police also stated that while almost 200 people entered the Graziano Transmission plant, most of them were not former employees but rather individuals recruited for this "protest." The police accountability review has determined that police supervisors improperly lowered the number of officers assigned to protect the plant because "everything had been going smoothly" since the termination of 200 employees four months ago. Several police officers responsible for the security of this plant have been suspended and/or transferred out of Noida. The police also informed RSO that they have created a new supervisory position, Deputy Superintendent of Police (DSP). The DSP will have 24 four to

five person teams assigned to him for the sole purpose of providing protection to multi-national corporations (MNCs).

INDIA SETS OUT TO MAKE CIVIL REGIONAL AIRCRAFT

19. (U) On Tuesday, leading technocrats of the Indian aviation and scientific community met in Delhi to initiate ambitious plans to develop and manufacture civil regional aircraft for domestic and foreign sales. Tentative plans are to develop an indigenous manufacture base to produce the "Indian Regional Transport Aircraft" - an inexpensive, durable, environmentally-friendly, and easy to maintain 70 to 100-seater civilian aircraft within a decade. HAL will lead the project with the Ministry of Defense supervising the program to enable India to become self-sufficient in making fixed-wing aircraft. The other two programs include plans for a next generation fighter aircraft and military transport plane, which India will co-develop with Russia. Plans for the latter will be firming up later this month during the visit of Alexsei Fedorov, Chief of United Aircraft Corporation (the umbrella company of Russia's aviation industry). Defense Minister Antony, who chaired the GOI meeting, commented that, "We are shortly going to send a spacecraft to the Moon and we are still importing civil aircraft. India has all the capabilities and we must make them a reality."

110. (U) Specific details about the proposed civil regional aircraft are still pending, including issues like work share, funding, and whether the aircraft will have a turbo-prop or turbo jet engine. In India, the time from development to certification is estimated to be six years and the plane will roll off four to six years after the certification. If the project succeeds, HAL will join a select group of companies that manufacture these planes with a range of 3,000 km. Currently, companies in this cadre include Embraer, Bombardier, Mitsubishi, Sukhoi, and the Chinese company, AVIC.

RAMANATHAN APPOINTED NEW FINANCE SECRETARY

111. (U) The GOI designated Arun Ramanathan, financial services secretary, to be the new Ministry of Finance Secretary. Ramanathan replaces D Subbarao who recently succeeded Y V Reddy as the RBI Governor. Ramanathan will face many challenges as the new Finance Secretary, including grappling with double digit inflation of 12 percent, slower economic growth compared to previous years, and containing the impact on the Indian economy from the global economic slow down and crisis in the U.S. capital markets. Ramanathan will also continue to hold the post of Financial Services Secretary, which he assumed in January 2008. He first moved to the central government in June 2007 when he was appointed the Secretary of the

Ministry of Chemicals and Fertilizers. He is 59 years old and belongs to the 1973 class of the Indian Administrative Service (IAS) from the Tamil Nadu cadre.

¶12. (U) Visit New Delhi's Classified Website:
<http://www.state.sgov/p/sa/newdelhi>

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